# Nine mistakes when buying insurance

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### 9. Purchasing narrow coverage

*(Story by Bloomberg News)*

Most experts warn against buying any insurance policy with extremely narrow coverage. Cancer insurance, for example, makes no sense when other policies can cover a broader array of health ailments. Industry experts generally recommend a life insurance benefit of five to 10 times annual income, depending on how many debts and dependents you have. With enough basic life coverage, you can avoid unnecessary life insurance gimmicks, says Jay Feinman, a Rutgers University law professor. For example, there is no need for extra life coverage folded into travel insurance products or for credit life insurance that pays off debts when you die.

### 8. Going too cheap

Generally, any insurance beats no insurance, particularly if you're talking life or health coverage. But insurance isn't a "commodity like salt or sugar," says Bill Wilson of the Independent Insurance Agents & Brokers of America. "There can be a dramatic difference in coverage from one policy to another."

One homeowners policy might cover all water damage, for example, while another might pay only if you notice it right away, excluding the effects of a pipe that has caused mold growth over a long stretch. In health care, coverage and price differences can be especially dramatic. "The cheapest is rarely the best," says Joseph Ditré, executive director of Consumers for Affordable Health Care.

## 7. Not self-insuring

"Raising your deductible is the best way to keep your premiums down," says Amy Bach, executive director of United Policyholders, a policyholder advocacy group. Even if you can afford the expensive premiums of a low-deductible policy, it should ultimately cost less to choose a high-deductible policy and create a bank account to insure your own small losses. Insurance should be for "catastrophic losses," says Rutgers professor Feinman. For anything less, "it often makes sense to absorb those yourself."

## 6. Filing small claims

Insurance policies with high deductibles not only save money on premiums; they prevent policyholders from being penalized for submitting many small claims. "The more claims you file, the more you're going to pay for insurance," says United Policyholders' Bach. Too many claims can prompt insurance companies to refuse to renew your policy or to raise your rates. Other insurers will also know about the frequency of your claims, because insurers use shared databases, she says.

## 5. Passing on disability insurance

Disability insurance replaces income lost if you can't work, and it's a necessity for most people, Karrol Kitt, a professor at the University of Texas at Austin, says. Workers are far more likely to become disabled than they are to die early. Many companies already provide short-term disability policies that usually cover two-thirds of employees' salaries. If you're forced to buy your own individual policy, it will probably cost more than a group policy, but you won't lose it if you leave your company, and the benefits won't be taxed. Disabled workers' insurance payments will generally be reduced if they receive other income, such as pension payouts or Social Security disability payments.

### 4. Ignoring liability coverage

Another important addition to homeowner policies is umbrella liability coverage. Without it, you could be bankrupted by a lawsuit, whether from someone injured on your property or from someone slandered by your Internet blog. Such coverage is rare but important for renters who live in large buildings, says Wilson of the Independent Insurance Agents & Brokers of America. A fire started in one apartment can easily spread to other units, potentially putting a renter on the hook for a big bill for damages. Each $1 million in liability coverage generally costs $100 to $200 per year in premiums, Headley says.

### 3. Buying cash-value products

Generally, vendors sell two kinds of life insurance: term coverage that pays out for a specified time period, and permanent coverage that builds up a cash value, much like an investment. Although some may get tax advantages from permanent life policies, consumer advocates say term coverage makes better financial sense for most people. "If you're not being told by a tax accountant to consider some cash-value product, you probably don't need it," says J. Robert Hunter, director of insurance at the Consumer Federation of America. "There are much better and lower-cost ways to invest" than through your life insurance policy, adds financial adviser Brenda Knox.

## 2. Assuming insurers are forever

Many forms of insurance, especially life insurance and annuities, represent a relationship between an insurer and a customer that can last decades. It's important to make sure a company is likely to survive that long. You can check on the financial strength of insurers through rating agencies such as Moody's, Standard & Poor's and A.M. Best. Terry Headley, an insurance agent and president of the National Association of Insurance & Financial Advisors, recommends picking only companies with the top three or four ratings from each agency. Companies receiving A.M. Best's top financial strength rating of A++ include USAA, State Farm, Northwestern Mutual, New York Life, Chubb Group, and Berkshire Hathaway.

## 1. Underinsuring

A dangerous way to lower premiums is to get too little coverage. Homeowners who can afford it would be smart to insure enough to cover the contents of a house–including artwork or other expensive items–and the full cost to rebuild a home on the site. This construction can be much more than the market value of a house, says public insurance adjuster Jack Kunz, president of Alex N. Sill. Also, many young families fail to get enough life insurance, says financial adviser Knox. Insurance agents sometimes won't present a policy with full coverage for fear that the high premiums will scare off customers.